

ASA 102
(October 2009)

Explanatory Statement

ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Reasons for Issuing Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

Operative Date

ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material regarding the responsibilities of the auditor, the assurance practitioner, the engagement

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quality control reviewer and the firm for compliance with relevant ethical requirements when performing audits, reviews and other assurance engagements.

Main Features

ASA 102 is made under the *Corporations Act 2001* for Australian legislative purposes and accordingly, there is no extant Australian Auditing Standard. However, the requirements and application and other explanatory material in ASA 102 have been drawn from several standards of the IAASB and the equivalent Australian Auditing Standards.

The Auditing Standard enables references to relevant ethical requirements in other AUASB Standards to remain current, as they are explicitly linked to ASA 102. The Auditing Standard also provides guidance to the auditor, assurance practitioner, quality control reviewer and the firm in relation to relevant ethical requirements such as those contained in APES 110 *Code of Ethics for Professional Accountants*, issued by the Accounting Professional and Ethical Standards Board (February 2008). The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

The Auditing Standard requires the auditor, assurance practitioner, quality control reviewer and the firm to comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

Preamble and Overall Objectives

ASA 102 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;

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- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the requirements or the application and other explanatory material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 21/09 *Proposed Auditing Standard: Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* was issued on 8 September 2009 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- referencing to relevant ethical requirements in the requirements section of the Auditing Standard for the purposes of referencing in other AUASB Standards;

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- the application and other explanatory material in the Auditing Standard regarding APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board (February 2008);
- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations?
- the significant costs, if any, and benefits, of compliance with any additional requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulation Impact Statement

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

The RIS considered both expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.